

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

GENOA-OCEOLA SEWER  
& WATER AUTHORITY

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2005

GENOA-OCEOLA SEWER & WATER AUTHORITY

SEWER & WATER AUTHORITY BOARD

Chairman - Gary McCririe  
Vice-Chairman - William Bamber  
Treasurer - Robin Hunt  
Secretary - Lance Schuhmacher

REPRESENTATIVES OF LIVINGSTON COUNTY DRAIN COMMISSION

Brian Jonckheere  
Greg Tatara

SEWER & WATER AUTHORITY ATTORNEY

Neal D. Nielsen

SEWER & WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka  
Certified Public Accountants

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**PFEFFER ■ HANNIFORD ■ PALKA**  
*Certified Public Accountants*

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**Brighton, Michigan 48116-1575**  
**(810) 229-5550**  
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December 7, 2005

Sewer & Water Authority Board  
Genoa-Oceola Sewer & Water Authority  
2911 Dorr Road  
Brighton, Michigan 48116

**INDEPENDENT AUDITORS' REPORT**

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Genoa-Oceola Sewer & Water Authority as of and for the year ended September 30, 2005. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Genoa-Oceola Sewer & Water Authority, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genoa-Oceola Sewer & Water Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly states in all material respects in relation to the basic financial statements as a whole.

*Pfeffer, Hanniford & Palka, P.C.*

**PFEFFER, HANNIFORD & PALKA**  
**Certified Public Accountants**

MANAGEMENT  
DISCUSSION  
AND  
ANALYSIS

Management Discussion and Analysis  
September 30, 2005

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Within this section of the Genoa-Oceola Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2005. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

***Government-wide Financial Statements***

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

***Other information***

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

### Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$25,765,405. This is a \$149,400 increase over last year's net assets of \$25,616,005.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

#### **Summary of Net Assets**

	<u>09/30/2005</u>	<u>09/30/2004</u>
Current and other assets	\$ 715,579	\$ 684,115
Restricted assets	5,626,455	5,782,224
Capital assets, net	24,743,957	24,698,818
Total assets	<u>31,085,991</u>	<u>31,165,157</u>
Accounts payable and other current liabilities	155,586	179,152
Bonds payable	5,165,000	5,370,000
Total liabilities	<u>5,320,586</u>	<u>5,549,152</u>
Net assets:		
Invested in capital assets, net of related debt	19,578,957	19,328,817
Unrestricted	6,186,448	6,287,188
Total net assets	<u>\$ 25,765,405</u>	<u>\$ 25,616,005</u>



### Summary of Changes in Net Assets

	<u>09/30/2005</u>	<u>09/30/2004</u>
Operating revenues	<u>\$ 1,250,445</u>	<u>\$ 1,122,859</u>
Operating expenses		
System operations	1,927,434	1,824,131
Administrative	<u>144,113</u>	<u>133,133</u>
Total operating expenses	<u>2,071,547</u>	<u>1,957,264</u>
Operating (loss)	(821,102)	(834,405)
Non-operating revenues, net	19,002	2,929
Capital contributions	<u>951,500</u>	<u>1,085,436</u>
Net income	149,400	253,960
Beginning net assets	<u>25,616,005</u>	<u>25,362,045</u>
Ending net assets	<u><u>\$ 25,765,405</u></u>	<u><u>\$ 25,616,005</u></u>

Revenues from operations increased by 11.4%, as usage increased due to 239 new users being added to the system. Operating expenses increased over the prior year, as major repairs and maintenance were performed on the system. Infrastructure contributions (non-cash) to the Authority from developers construction activities were over \$891,500. This amount was estimated by the Authority's engineers. Also, the two member townships contributed \$60,000 in cash to the Authority which had been previously recorded as loans in prior years. The Townships and Authority agreed to reclass the loans as contributions.

As a result, net income decreased from \$253,960 for the year ended September 30, 2004 to \$149,400 for the year ended September 30, 2005.

#### Capital and Debt Administration

As of September 30, 2005, the authority had only one set of bonds outstanding for the sewage treatment system. The outstanding balance for these bonds totaled \$5,165,000 at fiscal year end. Genoa & Oceola townships are paying their portion of this debt for the Authority with their respective new user funds.

The member townships and various developers directly spent approximately \$891,500 for additions to the collection system (sewer lines, pumps, etc.). This amount is recorded as capital contributions or income in the statement of revenues and expenses since the infrastructure is added to the Authority's fixed assets and will be depreciated over future years. The Authority also spent \$60,279 for telemetry phone system equipment during the year.

The telemetry phone system project was approximately 55% complete at September 30, 2005. The Authority believes it will be completed in the next year. The project should produce a significant savings in phone expenses.

#### Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The population in the service area is expected to grow with new users being regularly added to the system.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the Authority and its customers. During this fiscal year, the Authority's electrical and heating costs increased by nearly 9% from the prior year.

#### Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 2911 Dorr Road, Brighton, Michigan, 48116.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2005

ASSETS

CURRENT ASSETS

Cash	\$ 107,775	
Accounts receivable - sewer	517,362	
Accounts receivable - MHOG SWATH	19,936	
Accounts receivable - other	27,000	
Inventory - parts	12,050	
Prepaid expenses	<u>31,456</u>	
Total current assets		\$ 715,579

RESTRICTED ASSETS

Cash - sewer equipment and future improvements	437,377	
Cash - expansion	565	
Cash - debt service	23,513	
Accounts receivable - member townships	<u>5,165,000</u>	
Total restricted assets		5,626,455

CAPITAL ASSETS

Land	290,720	
Sewer system	36,427,524	
Software, equipment and furniture	127,501	
Construction in progress	<u>60,279</u>	
	36,906,024	
Less accumulated depreciation	<u>12,162,067</u>	
Capital assets		<u>24,743,957</u>
Total assets		<u>31,085,991</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	155,586
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CURRENT LIABILITIES (from restricted assets)

Bonds payable - expansion	<u>215,000</u>
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Total current liabilities	370,586
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LONG-TERM LIABILITY (from restricted assets)

Bonds payable - expansion	<u>4,950,000</u>
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Total liabilities	<u>5,320,586</u>
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NET ASSETS

NET ASSETS

Investment in capital assets, net of related debt	19,578,957	
Unreserved - sewer	<u>6,186,448</u>	
Total net assets		<u>\$ 25,765,405</u>

The accompanying notes are an integral part of these financial statements

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

OPERATING REVENUES	
Billings	\$ 1,250,445
OPERATING EXPENSES	
Engineering fees	9,707
Depreciation	899,331
Contracted labor - operators (fixed fee)	369,980
Additional labor costs (meter reads)	17,527
Groundwater discharge	37,281
Sludge disposal	76,972
Chemicals	1,367
Repairs and maintenance - grounds and buildings	5,094
Repairs and maintenance - plant equipment	35,775
Repairs and maintenance - sewer lines	64,087
Repairs and maintenance - pumps	81,707
Repairs and maintenance - other	8,006
Sewer line cleaning	30,965
Licenses and permits	11,622
Inspections	1,974
Administrative consent order	50,795
Utilities - electric	163,287
Utilities - gas	7,273
Telephone	34,129
Lab supplies	17,970
Spare parts	1,302
Capital outlay	1,050
Miss Dig	233
Total operating expenses	<u>1,927,434</u>
ADMINISTRATIVE EXPENSES	
Insurance	22,677
Depreciation	7,309
Meter reading - billing preparation	76,540
Office expenses	2,374
Authority per-diem fees	10,350
Bookkeeping	5,100
Legal fees	1,133
Accounting and audit fees	18,630
Total administrative expenses	<u>144,113</u>
Total expenses	<u>2,071,547</u>
OPERATING (LOSS)	<u>(821,102)</u>
NON-OPERATING REVENUES	
Interest	6,301
Miscellaneous	12,701
Total other income	<u>19,002</u>
Net income before capital contributions	<u>(802,100)</u>
CAPITAL CONTRIBUTIONS	
Developer contributions	891,500
Member contributions	60,000
Total capital contributions	<u>951,500</u>
Net income	149,400
NET ASSETS, OCTOBER 1, 2004	<u>25,616,005</u>
NET ASSETS, SEPTEMBER 30, 2005	<u>\$ 25,765,405</u>

The accompanying notes are an integral part of these financial statements

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

CASH FLOWS FROM (USED-IN) OPERATING ACTIVITIES		
Receipts from customers	\$ 1,173,800	
Receipts from others	12,701	
Payments to vendors	<u>(1,157,969)</u>	
Net cash from operating activities		\$ 28,532
CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED FINANCING ACTIVITIES		
Received from member township	204,000	
Payment of principal on bonds	(205,000)	
Acquisition of property, plant and equipment	<u>(60,279)</u>	
Net cash (used in) capital and related financing activities		(61,279)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		<u>6,301</u>
(Decrease) in cash		(26,446)
CASH AT OCTOBER 1, 2004		<u>595,676</u>
CASH AT SEPTEMBER 30, 2005		<u>\$ 569,230</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM (USED IN) OPERATING ACTIVITIES		
Operating (loss)		\$ (821,103)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities		
Miscellaneous income		12,701
Depreciation expense		906,640
Changes in assets and liabilities		
Receivables, net		(75,685)
Prepaid expenses		(31,456)
Accounts and other payables		<u>37,435</u>
Net cash provided by operating activities		<u>\$ 28,532</u>

The accompanying notes are an integral part of these financial statements

NOTES  
TO  
FINANCIAL  
STATEMENTS

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

**NOTE 1 - DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
OF THE REPORTING ENTITY**

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The Genoa-Oceola Sewer & Water Authority was established on November 1, 1990, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The sewer system is located in both Genoa and Oceola Townships.

The financing of the sewer system has taken place at the township level (Genoa and Oceola) and the county level (Livingston County Drain Commission). The related debt service funds and construction funds (capital project) are maintained in the financial statements of those aforementioned entities.

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

The Authority board is composed of three members appointed by the Genoa Township Board, three members appointed by the Oceola Township Board and two representatives from the Livingston County Drain Commission. One of the three members appointed by the township boards serve as alternates in the event one of the two regular members is absent from an Authority board meeting.

**A. SIGNIFICANT ACCOUNTING POLICIES**

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar items; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

**B. MEASUREMENT FOCUS**

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

**C. CASH AND CASH EQUIVALENTS**

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less to be cash equivalents.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF  
SIGNIFICANT ACCOUNTING POLICIES - (continued)

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 15 years for equipment and 5 to 40 years for buildings, infrastructure, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM, AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended September 30, 2005.

H. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>469,230</u>	<u>472,312</u>
Total deposits	<u>\$ 569,230</u>	<u>\$ 572,312</u>

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll for the applicable township. As of September 30, 2005, approximately \$90,179 of the outstanding \$517,362 accounts receivable went on the tax roll for collection. The Authority will receive the \$90,179 by March of 2006 through the tax collection process. The remaining accounts receivable of \$427,183 (\$517,362 - \$90,179) were under 90 days old as of September 30, 2005.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE 5 - INVENTORY

Inventory consists of extra repair parts for the sewer system and is recorded at cost.

NOTE 6 - CAPITAL ASSETS

	Balance 10-01-04	Additions	Deletions	Balance 9-30-05
Software, equipment and furniture	\$ 127,501	\$	\$	\$ 127,501
Sewer System	35,536,024	891,500		36,427,524
Land	290,720			290,720
Construction in progress	<u>60,279</u>	<u>60,279</u>		<u>60,279</u>
Total	35,954,245	951,779		36,906,024
Accumulated depreciation	<u>11,255,427</u>	<u>906,640</u>		<u>12,162,067</u>
Capital assets, net	<u>\$ 24,698,818</u>	<u>\$ 45,139</u>	<u>\$</u>	<u>\$ 24,743,957</u>
Net capital assets				\$ 24,743,957
Bonds payable				<u>(5,165,000)</u>
Interest in capital assets, net of related debt				<u>\$ 19,578,957</u>

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

**NOTE 7- LONG-TERM DEBT**

On September 19, 2001, the Authority sold \$5,750,000 in bonds (Oceola's portion - \$4m and Genoa's portion \$1.75m) to finance a portion of the construction costs in expanding the wastewater treatment plant. Principal is payable in annual installments of \$215,000 to \$460,000 until its maturity in June 2021. Interest is charged at 4.0% to 4.8% payable semi-annually.

The Authority will be making all debt service payments. However, all amounts are to be repaid by Genoa Township and Oceola Township for their portion of sewer expansion costs. Therefore, the interest expense is recorded by the member townships.

The following is a schedule of principal and interest payments to service the long-term debt:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005 - 2006	\$ 215,000	\$ 227,686	\$ 442,686
2006 - 2007	225,000	219,086	444,086
2007 - 2008	240,000	210,086	450,086
2008 - 2009	250,000	200,486	450,486
2009 - 2010	265,000	190,486	455,486
2010 - 2015	1,535,000	778,824	2,313,824
2015 - 2020	1,975,000	398,256	2,373,256
2020 - 2021	<u>460,000</u>	<u>22,080</u>	<u>482,080</u>
	<u>\$ 5,165,000</u>	<u>\$ 2,246,990</u>	<u>\$ 7,411,990</u>

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

**NOTE 8 - STATEMENT OF CASH FLOWS**

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	<u>10-01-04</u>	<u>9-30-05</u>
Current assets		
Cash	\$ 183,452	\$ 107,775
Restricted assets		
Cash	<u>412,224</u>	<u>461,455</u>
Total cash	<u>\$ 595,676</u>	<u>\$ 569,230</u>

**NOTE 9 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

**NOTE 10 - CONTINGENT LIABILITIES - WASTEWATER TREATMENT SYSTEM**

- A. The Authority entered into a Consent Order with the Michigan Department of Environmental Quality (MDEQ) on December 10, 1999, to address excessive sodium and chloride concentrations being discharged to the local groundwater at the Genoa Oceola Wastewater Treatment Plant (WWTP).

The Authority has successfully eliminated the source of the sodium and chloride discharging to the local groundwater. The Genoa Oceola WWTP was expanded and converted to surface water discharge. The WWTP began discharging to surface water in fiscal year 2002.

The Authority's engineering consultants have prepared an interim response designed to meet criteria (IRDC) report for this site. The MDEQ approved the IRDC on October 4, 2005. During the past fiscal year additional groundwater samples were collected and six affected residential homes were connected to municipal water.

In the year ending September 30, 2005, the Authority spent approximately \$37,281 to comply with the Consent Order. On a cumulative basis, since June 1999 through September 30, 2005 the Authority has spent approximately \$577,116 to comply with the consent order. This fee has been recorded as an expense under operations. The amount of additional costs for the next fiscal year ending September 30, 2006 is estimated to be approximately \$20,000.

- B. The Water Bureau of the DEQ alleges the Authority is in violation of Part 31, Water Resources Protection, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA) MCL 324.3101 et seq. and National Pollutant Discharge Elimination System (NPDES) Permit No. MI 0055654.

The allegation is based on several events of non-compliance of the Authority's NPDES Permit. The significant event which triggered the DEQ, Water Bureau to make the allegation and institute fines was as follows:

From November 26, through November 30, 2004 the Authority discharged approximately 2.4 million gallons of raw sewage to waters of the state in violation of section 3109 of the NREPA and the Authority's NPDES permit.

Despite significantly low influent flow rates due to a sewer force main break, raw sewage was discharged to a wetland tributary to the Marion-Genoa Drain for more than three days before identified by the Authority. The DEQ, Water Bureau alleges that the Authority's acts or omissions related to this discharge was a violation of Rule 2955 (1) (1979 AC R 299.2955), which provides that sewage systems shall be operated and maintained at all times as efficiently as possible and in a manner that will minimize upsets and discharges of excessive pollutants. In addition, the Authority violated Section 3112 (a) of the NREPA by failing to notify the local newspaper within 24 hours after the discharge began.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

**NOTE 10 - CONTINGENT LIABILITIES - WASTEWATER TREATMENT SYSTEM - (continued)**

The DEQ and the Authority are currently negotiating fines and penalties included in an Administrative Consent Order as well as various compliance programs for future operations.

Management of the Authority estimates the fines will be approximately \$58,766 based on current discussions with the DEQ. Management also estimates approximately \$27,000 of the fines will be reimbursed to the Authority by the contracted operators of the sewer plant at the time the 2.4 million gallons of raw sewage were discharged into state waters.

As of September 30, 2005 the Authority has recorded a liability of \$58,766 and a receivable for \$27,000 based on the above estimates.

Since the actual fines and penalties have not been fully agreed-upon as of this date the final agreed amount may differ from the above estimates.

**NOTE 11 - SEGMENT INFORMATION**

Selected financial information is as follows:

Operating revenue	\$ 1,250,445
Depreciation	906,640
Total assets	31,085,991
Total net assets	25,765,405
Net income	149,399

**NOTE 12 - BUDGET INFORMATION**

The Authority adopts an annual budget for operations of the sewer system prior to the fiscal year. The budget is amended from time to time to reflect economic reality.

The Authority excludes from the annual operating budget such items as:

- Depreciation
- Contributions from developers and members
- Major purchases from its reserve cash account

The Authority includes in the annual operating budget such items as:

- Major capital asset purchases from its Operations and Maintenance cash account.
- Transfers to reserves from Operations and Maintenance cash account.

The following schedule is a reconciliation between the Statement of Revenues, Expenses and Changes in Net Assets (GAAP) and the Schedule of Revenues, Expenses and Transfers - Budget to Actual (Non-GAAP, supplementary information).

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE 12 - BUDGET INFORMATION - (continued)

Per statement of Revenues, Expenses and Changes in Net Assets

Net income \$ 149,400

Reconciling items

Additions

Depreciation expense \$ 906,640

Major repairs paid from reserve cash account 42,597

Total additions 949,237

Deductions

Transfers to reserves (86,000)

Contributions (951,500)

Telemetry phone system - capital asset (60,279)

Total deductions (1,097,779)

Net revenues over expenses and transfers per  
budget to actual report

\$ 858

SUPPLEMENTARY  
INFORMATION



GENOA-OCEOLA SEWER AND WATER AUTHORITY  
SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS – BUDGET TO ACTUAL  
OPERATIONS ONLY  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Amended Sewer Budget for the Year End 9/30/2005	Sewer Actual for the Year End 9/30/2005	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Billings	\$ 1,247,000	\$ 1,250,445	\$ 3,445
Interest income	5,500	6,301	801
Miscellaneous	<u>13,000</u>	<u>12,701</u>	<u>(299)</u>
Total revenues	<u>1,265,500</u>	<u>1,269,447</u>	<u>3,947</u>
<b>EXPENSES – OPERATIONS</b>			
Labor –fixed	370,000	369,980	20
Labor – groundwater discharge – consent order	100,000	37,281	62,719
Administrative consent order	40,000	50,795	(10,795)
Labor – out of scope, meter reads	18,000	17,527	473
Engineering	15,000	9,707	5,293
Licensing	9,000	11,622	(2,622)
Sludge disposal	80,000	76,972	3,028
Chemical and supplies	1,000	1,367	(367)
R & M - building	1,000	362	638
R & M - grounds	5,500	4,732	768
R & M - equipment	40,000	35,775	4,225
R & M – sewer line	20,000	21,490	(1,490)
R & M - pumps	80,000	81,707	(1,707)
R & M – other	8,000	8,006	(6)
Sewer line cleaning	32,000	30,965	1,035
Utilities - electric	170,000	163,287	6,713
Utilities – gas/oil	10,000	7,273	2,727
Spare parts	2,000	1,302	698
Telephone	38,000	34,129	3,871
Laboratory supplies	18,000	17,970	30
Capital purchases	7,000	1,050	5,950
Telemetry phone system	112,000	60,279	51,721
Inspections	<u>2,000</u>	<u>1,974</u>	<u>26</u>
Total operating expenses	<u>1,178,500</u>	<u>1,045,552</u>	<u>132,948</u>
<b>EXPENSES – ADMINISTRATION</b>			
Billing preparation	80,000	76,540	3,460
Legal fees	1,500	1,133	367
Office	1,000	2,374	(1,374)
Accounting/audit fees	19,000	18,630	370
Bookkeeping	5,200	5,100	100
Per diem fees	11,500	10,350	1,150
Miss Dig - expenses	500	233	267
Refunds and adjustments	500		500
Insurance	<u>23,000</u>	<u>22,677</u>	<u>323</u>
Total administration expenses	<u>142,200</u>	<u>137,037</u>	<u>5,163</u>
<b>TRANSFERS TO RESERVES</b>	<u>86,000</u>	<u>86,000</u>	
Total expenses/transfers	<u>1,406,700</u>	<u>1,268,589</u>	<u>138,111</u>
Net revenues over expenses and transfers	\$ <u>(141,200)</u>	\$ <u>858</u>	\$ <u>142,058</u>

This schedule is prepared to present revenues and expenses related to current operations only and includes capital purchases and transfers to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information. See footnote for reconciliation of Budget to Actual report and Statement of Revenues, Expenses and Changes in Net Assets.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF CASH FLOWS - INDIRECT METHOD  
FOR THE YEAR ENDED SEPTEMBER 30, 2005

CASH FLOWS FROM (USED-IN) OPERATING ACTIVITIES

Operating income		\$ (821,103)
Adjustments to reconcile operating income to net cash from (used in) operating activities		
Miscellaneous income	\$ 12,701	
Depreciation	906,640	
Changes in assets and liabilities		
(Increase) in accounts receivable - sewer billings	(76,645)	
Decrease in accounts receivable – MHOG SWATH	27,960	
(Increase) in accounts receivable other	(27,000)	
(Increase) in prepaid expenses	(31,456)	
Increase in accounts payable	<u>37,435</u>	
Total adjustments		<u>849,635</u>
Net cash from operating activities		28,532

CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED  
FINANCING ACTIVITIES

Received from member townships	204,000	
Payment of principal on bonds	(205,000)	
Acquisition of property, plant and equipment	<u>(60,279)</u>	
Net cash (used in) capital and related financing activities		(61,279)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>6,301</u>	
(Decrease) in cash		(26,446)

CASH AT OCTOBER 1, 2004	<u>595,676</u>
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CASH AT SEPTEMBER 30, 2005	<u><u>\$ 569,230</u></u>
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